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**CITY OF SUISUN CITY
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

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**CITY OF SUISUN CITY
SINGLE AUDIT REPORT
For The Year Ended June 30, 2008**

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CITY OF SUISUN CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2008

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA#(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>14.871</u>	<u>Section 8 Housing Choice Voucher Program</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any material weaknesses or instances of noncompliance material to the basic financial statements. We have issued a separate Memorandum on Internal Control dated December 5, 2008 which is an integral part of our audits and should be read in conjunction with this report.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit did not disclose any findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS – Prepared by Management

Financial Statement Prior Year Findings

SCHEDULE OF MATERIAL WEAKNESS

2007-01 Payroll Responsibilities

The Payroll Clerk processes payroll, modifies the employee database information including setting up a new employee, runs checks, holds unclaimed checks, prepares W-2's, holds unclaimed W-2's. This concentration of duties negates all internal controls over this important function. Also, the payroll register is not approved by another employee.

Some of these tasks *must* be assigned to other employees to provide for adequate segregation of duties. Most importantly, employees who process payroll should not be able to alter data in the payroll database. If this access is deemed necessary, an edit report should be printed after every payroll run for the Human Resources Department, which should review and approve all changes in writing.

Current Status: Since the last audit, personnel and payroll duties have been segregated and assigned to different individuals. All payroll edits are reviewed/approved by a supervisor prior to printing/distributing paychecks. General Ledger payroll account reconciliation is done by the Accountant and not the Payroll Clerk, which provides additional internal control.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCHEDULE OF SIGNIFICANT DEFICIENCIES

2007-02 Information System Security Access Rights (Access to MOMS)

As part of our review of the City's Information Technology Systems, we reviewed the Security Access Rights Listing by User and noted many employees have access to areas that are beyond their normal duties and responsibilities. For example, the Finance Director, Payroll Clerk and Management Analyst positions have access to all modules of the MOMS system, including Accounts Payable, Accounts Receivable, Payroll, Fixed Assets and General Ledger system utilities.

The City should designate a person who is not involved in Finance-related duties to be in control of Security Access Rights. The City should restrict system access based on employee's needs. For example, for the following areas, Finance Director Security Access Rights should be limited to query or inquiry:

- Customer Database Access and Cash Receipts processing
- Vendor Database Access and Disbursement Processing
- Employee Database Access and Payroll Processing

Furthermore, because of the heavy reliance on the Senior Accountants for reviewing and oversight, neither should have access to cash receipts or printing checks.

Current Status: The Computer Technician (assigned to the Information Technology Division of the Building Department) is now responsible for establishing User ID's in the accounting software. The Financial Services Manager's access has been restricted along the lines identified above.

The Senior Accountant only runs check when the situation calls for it and if no one is available to process checks, this situation does not happen often, and when it does, the Senior Accountant seeks approval from the City Manager to run checks.

2007-03 Accounts Payable Responsibilities

The Accounts Payable Clerk processes disbursements, prints checks, maintains the vendor database and has access to blank check stock, signed checks and reviews the check log. While the Senior Accountant reviews the check register, another employee who does not process disbursements should review the check log on a regular basis.

Current Status: The Accountant now reviews the Check Log, in addition to the Sr. Accountant's review of the check edit.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

2007-04 Cashier Functions

The Cashier has access to cash receipts, prepares utility billings, and adjusts customer accounts with no review by another individual. All customer account adjustments, including write-offs and voids, should be performed by, or minimally reviewed by, a supervising accountant.

Current Status: Utility Adjustments are reviewed/approved by either the Sr. Accountant or the Financial Services Manager. Cash receipts are reconciled and deposited by the Payroll Clerk.

2007-05 Appropriations Overrides

We were informed that Finance Staff who process disbursements are instructed to override appropriations controls in the system to allow for expenditures to run through even if they exceed approved purchase order amounts. The budget is a very important tool for maintaining controls. Any overrides should be approved only by authorized persons as dictated in the City's budgeting and purchasing policies.

Current Status: By Council Resolution, budget control is at the Fund/Department level. Unfortunately, the Accounting Software only controls at the account level. New reports have been created that improve our ability to track expenditures and amend the budget in a timely manner. Further, purchase orders and encumbrances have been re-established, which gives Management the ability to verify funds are available prior to incurring the expense.

2007-06 Timesheets

We understand the City's payroll periods are run on a semi-monthly basis, while timesheets are prepared weekly or monthly depending on classification. We were also informed that timesheets are regularly turned in subsequent to the payroll period – sometimes up to 2-3 months late, requiring Finance staff to make numerous adjustments to employees' vacation hours, sick hours and comp time as timesheets are received. This process does not allow anyone to be able to compare timesheets to payroll registers, nor does it provide reliable data concerning vacation and sick hours taken.

Current Status: The payroll process was substantially revised after the audit. Payroll is now calculated on a Bi-Weekly basis. Timesheets are turned in immediately after the pay period ends and checks are produced based on that timesheet. This has eliminated the delay in posting exceptions to the standard 80 hour work schedule. Moreover, payroll audits have been conducted to verify the accuracy and several corrections have been made.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCHEDULE OF OTHER MATTERS

2007-07

Investment Policy and Treasurer's Report

We compared the City's Investment Policy and the March 2007 Treasurer's Report with California State Government Code §§53601 and 53646 and noted the following:

- California Government Code §53601 imposes limitations to the following allowable investments:
 - no more than 30% of the City's money may be invested in Bankers' Acceptances of any one commercial bank
 - no more than 25% of the City's money be invested in Commercial Paper, and no more than 10% of the City's money may be invested in the Commercial Paper of any one corporate issuer
 - no more than 30% of the City's money may be invested in Certificates of Deposits

The City's current Investment Policy does not include these limitations. The City should update its Investment Policy to be in compliance with the Government Code.

- The City's Investment Policy specifies investments that are allowed per California Government Code §53601 and lists Federally sponsored credit agency securities, *specifically* in Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). Per review of the March 2007 Investment Report, the City has investments in Federal Home Loan Bank which is not listed as one of the allowable investments. We recommend the City update its Investment Policy to remove the word "specifically" and replace it with "including" and/or add Federal Home Loan Bank.
- The City's Investment Policy states the Investment Report reporting requirements to include the accrued interest earnings fiscal year-to-date for each investment, percent distribution of each type of investment, and average weighted yield of all investments. Per review of the March 31, 2007 Investment Report, this information was not included.
- The City's Investment Policy specifically states that the Policy will be reviewed annually by the governing body; however, we were informed the Policy has not been submitted to the Council since 2004. We recommend staff update the Policy with all of the proposed changes above, and provide it for review by the Council on an annual basis.
- California Government Code §53646(b)(1) states that the Treasurer may render a quarterly report to the chief executive officer, the internal auditor, and the legislative body of the local agency within 30 days following the end of the quarter. The Investment Report for March 31, 2007 was submitted to Council on June 19, 2007, which is significantly after the 30 day timeframe. We are aware that the City submitted the investment report to the City Manager to include it in the first Council meeting in June; however, the report was not included in the agenda. We recommend that the investment report be submitted within the required timeframe.
- In addition, Government Code §53646(b)(1) states that the Investment Report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities. The March 31, 2007 Treasurer's Report lists pooled investments by group. We recommend the City list all investments on the Investment Report individually.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

- Government Code §53646(j) states the City is required to submit their Investment Policy to California Debt and Investment Advisory Commission (CDIAC) within 60 days after the close of the second quarter of each calendar year and 60 days after the subsequent amendments. The City submitted their Investment Policy on October 11, 2006 which is after the 60 day timeframe. The City should make sure that it complies with this requirement.
- Government Code §53646(b)(3) requires that the investment report include a statement denoting the ability of the local agency to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The March 31, 2007 Treasurer's Report included the statement "...the City will be able to meet its obligations for the next quarter" rather than "the next six months." We recommend the City revise its Treasurer's Report to comply with this section.
- According to the March 31, 2007 trustee statements, the investment report listed several investments with inaccurate interest rates. We recommend staff use the applicable statements when preparing the report.

Current Status: The Investment Policy was amended on August 21, 2007 and again on August 16, 2008, and made corrections to the policy as recommended above. The Investment Report format was also modified. We are improving our timeliness in presenting the Quarterly Investment report to Council, despite the delays in receiving the support documents and the Council's meeting schedule (they only meet the first and third Tuesday of each month). We will forward copies of the report to Council when it is finished and then formally accept the report at the Council's next regular meeting.

2007-08 Accounts Payable

Per review of the City's Purchasing Policy, invoices over \$1,000 require the approval of the Department Head, Finance Director and City Manager. During our testing of accounts payable controls, we found 12 out of 30 invoices that did not have the required signatures.

The Purchasing Policy also requires that for all disbursements over \$1,000, three quotes are required and Department Heads are to prepare a comparative quote sheet, however, these sheets are not forwarded to Finance.

The City should review its Purchasing Policy for effectiveness and efficiency and update thresholds if deemed necessary, and furthermore, ensure compliance with the Policy.

Current Status: Now that the Financial Services Manager position is filled, invoices and Purchase Orders are reviewed and signed before processing. The Purchasing Policy was reviewed and revised and will be reviewed on a regular basis going forward.

Federal Award Prior Year Findings and Questioned Costs

There was no prior year Federal Award Findings and Questioned Costs reported.

CITY OF SUISUN CITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2008

Grantor Agency and Award Title	Identifying Pass-Through Grant #	Catalog of Federal Domestic Assistance Number	Program Expenditures
U.S. Department of Homeland Security			
Transportation & Housing Agency (Pass Through Program from State of California) Assistance to Firefighter Grant 2006	EMW-2006-FG-10663	97.044	<u>\$57,595</u>
Total U.S. Department of Homeland Security			<u>57,595</u>
U.S. Department of Justice			
Office of Community Oriented Policing Services: Bullet Proof Vest Grant (Pass Through Program from State of California Business Transportation & Housing Agency)	N/A	16.607	1,418
Gang & Gun Violence Reduction	2007-DD-BX-0635	16.743	<u>11,052</u>
Total U.S. Department of Justice			<u>12,470</u>
U.S. Department of Housing and Urban Development			
Office of Public and Indian Housing: Section 8 Housing Choice Vouchers	N/A	14.871	<u>2,533,355</u>
Total U.S. Department of Housing and Urban Development			<u>2,533,355</u>
U.S. Department of Transportation			
(Pass Through Program from State of California Business Transportation & Housing Agency)			
State and Community Highway Safety - Office of Traffic Safety	PT-0805	20.600	118,750
Highway Planning and Construction - Driftwood Drive Waterfront	CML 5032(016)	20.205	<u>473</u>
Total U.S. Department of Transportation			<u>119,223</u>
Total Expenditures of Federal Awards			<u>\$2,722,643</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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CITY OF SUISUN CITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2008

NOTE 1-REPORTING ENTITY

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Suisun City, California and its component units as disclosed in the notes to the Basic Financial Statements.

NOTE 2-BASIS OF ACCOUNTING

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
of the City of Suisun City, California

We have audited the financial statements of the City of Suisun City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 5, 2008 which is an integral part of our audits and should be read in conjunction with this report.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 5, 2008

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and City Council
of the City of Suisun City, California

Compliance

We have audited the compliance of the City of Suisun City with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in Section I - Summary of Auditor's Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's internal control over compliance.

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marce & Associates

December 5, 2008